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EXDIS HANDLE AS SPECAT EXCLUSIVE

FOLLOWING REPEAT REYKJAVIK 1015 SENT ACTION SECSTATE
INFO NATO COPENHAGEN OSLO STOCKHOLM, JULY 26TH:

QUOTE CONFIDENTIAL REYKJAVIK 1015

EO 11652: GDS

TAGS: PFOR PINT MARR IC NATO

SUBJECT: IDF RETENTION ISSUE: SOCIAL DEMOCRATS

CONDITIONS FOR JOINING LEFTIST GOVT

REF: REYKJAVIK 990

1. SUMMARY: SDP INTENDS TO DEMAND MAJOR CONCESSIONS FROM PP AND PA ON DEFENSE ISSUE AS CONDITION FOR JOINING PP-LED LEFTIST GOVT. IF SDP MAINTAINS ITS POSITION IDF CAN EXPECT RETENTION FOR SEVERAL YEARS WITHOUT CRIPPLING MODIFICATIONS. END SUMMARY.

2. EVENING JULY 24 SDP CHAIRMAN GYLFI GISLASON AND I HAD LONG PRIVATE CONVERSATION ON DEFENSE ISSUE DURING WHICH HE DESCRIBED THE DEVELOPING SITUATION REGARDING FORMATION OF NEW GOVT AND THE SDP POSITION ON DEFENSE. GISLASON SAID THAT EARLIER THIS WEEK THE 5 SDP ALTHING CONFIDENTIAL

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MEMBERS, BY VOTE OF 3-2 (GISLASON AND EGGERT

THORSTEINSSN IN MINORITY AND VICE CHAIRMAN BENEDIKT GRONDAL LEADING MAJORITY) INSTRUCTED HIM TO ACCEPT INVITATION FROM OLAFUR JOHANNESSON TO DISCUSS JOINING A PP-LED LEFTIST GOVT. BY UNANIMOUS DECISION OF THE 5 IT WAS AGREED TO SET AS MINIMUM CONDITIONS (A) A STRONG PRO-DEFENSE POSITION, (B) CABINET PORTFOLIOS FOR GRONDAL AND THORSTEINSSON, THE FOREIGN MINISTRY GOING TO GRONDAL, AND (C) AN UNDERSTANDING MADE KNOWN TO THE PUBLIC THAT THE NEW COALITION STARTS FRESH AND IS NOT A CONTINUATION OR CONFIRMATION OF ANY OF THE FOREIGN AND DOMESTIC POLICIES OF THE PREVIOUS LEFTIST GOVT.

3. THE DEFENSE POSITION OF SDP DESCRIBED TO ME BY GISLASON IS AS FOLLOWS: (A) CONTINUED MEMBERSHIP OF ICELAND IN NATO; (B) IMMEDIATE IMPLEMENTATION OF AN ICELANDIZATION PROGRAM AT IDF (BUT INITIALLY NOT TO EXCEED NUMBER OFFERED BY USG DURING THE NOVEMBER NEGOTIATING SESSION); (C) ICELANDIZATION OF THE SAR ACTIVITY UNDER CONTROL OF ICELANDIC COAST GUARD BUT WITH THE TECHNICAL ADVICE OF IDF INITIALLY (NO MENTION MADE OF WHOSE EXPENSE); (D) COMPLETE ON BASE HOUSING OF MILITARY PERSONNEL; (E) COMPLETE SEPARATION OF CIVIL AND MILITARY AIR FACILITIES AT KEFLAVIK UNDER JOINT USG-ICELANDIC FINANCING; AND (F) EVENTUAL FULL UNARMED ICELANDIZATION WITHOUT A TIME LIMIT FOR IMPLEMENTATION BUT CONSISTENT WITH POLITICAL- MILITARY SITUATION IN NORTH ATLANTIC AS DETERMINED BY SERIES OF PERIODIC JOINT USG-ICELANDIC REVIEWS.

4. GISLASON SAID AFTERNOON JULY 24, JUST PRIOR TO OUR DISCUSSION, HE MET WITH OLAFUR JOHANNESSON AND SET AS CONDITIONS FOR SDP JOINING PP-LED LEFTIST GOVT THE FOLLOWING: (A) RECALL OF GOI PROPOSALS MADE TO USG IN APRIL AND (B) NULLIFICATION OF ALL DEFENSE ISSUE DEMANDS ON USG BY PREVIOUS GOVT, LEAVING IT TO THE NEW GOVT AND NEW FOREIGN MINISTER TO INITIATE NEW DISCUSSIONS WITH USG. IN OTHER WORDS, START ALL OVER. JOHANNESSON REPLIED THAT ALTHOUGH HE MIGHT AGREE TO THESE CONDITIONS THEY WOULD BE HUMILIATING TO EINAR AGUSTSSON (CURRENT FONMIN AND PP VICE-CHAIRMAN), AND, THEREFORE, HE DOUBTED

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AGUSTSSON WOULD AGREE WITHOUT SOME FACE-SAVING CONDITIONS. IT WAS AGREED THAT COMMENCING JULY 25 THERE WOULD BE SERIES OF MEETINGS ON DEFENSE ISSUE BETWEEN SDP AND PP WITH GISLASON, GRONDAL AND THORSTEINSSON REPRESENTING SDP AND JOHANNESSON AND AGUSTSSON THE PP. IF AGREEMENT REACHED BETWEEN PP AND SDP, THE PP WOULD THEN BE REQUIRED TO PRESENT THIS AS NON NEGOTIABLE PRE CONDITIONS FOR INVITING PA INTO THE GOVT. GISLASON COMMENTED TO ME

THAT PERHAPS IT MIGHT BE NECESSARY FOR USG TO REPLY TO THE APRIL GOI PROPOSALS TO CLEAR THE SLATE, BUT SDP AT THIS INITIAL STAGE OF GOVT-FORMATION NEGOTIATIONS WANTS FULL REPUDIATION OF PREVIOUS GOVT'S ACTION ON DEFENSE AFFAIRS.

5. WHEN I ASKED WHETHER HE THOUGHT THE PA COULD ACCEPT THESE CONDITIONS, GISLASON REPLIED THAT HE WOULD NOT RULE THIS OUT COMPLETELY, BUT ON THE BASIS OF THE MAJORITY VIEWS OF THE PA TODAY, HE WOULD HAVE TO SAY IT WAS DOUBTFUL. HE SAID GREAT DEBATE GOING ON NOW WITHIN PA ON EXTENT TO WHICH WILLING TO COMPROMISE ITS DEFENSE POSITION FOR THE SAKE OF ENTERING A NEW GOVT. HE SAID THE OLD LINE COMMUNISTS ARE WILLING TO ABANDON THEIR HARD POSITION SUBSTITUTING SOME FACE SAVING SELF SERVING STATEMENTS ON DEFENSE BUT THIS GROUP IS STILL IN THE MINORITY. GISLASON SAID THERE ARE SOME PA MEMBERS WHO ARE SAYING THAT IF THEY HAVE TO GIVE IN ON THE DEFENSE ISSUE THEY MIGHT AS WELL TRY TO JOIN AN IP-PA COALITION. SUCH A COALITION WOULD AT LEAST CAUSE THE IP TO SHARE PUBLIC CRITICISM THAT UNDOUBTEDLY WILL RESULT WHEN THE ECONOMIC CRISIS IS FACED.

6. GISLASON REMARKED IN THE COURSE OF OUR DISCUSSION THAT HE AND BENEDIKT GRONDAL WOULD LIKE TO KEEP IN CLOSE TOUCH WITH ME DURING THE GOVT FORMATION NEGOTIATIONS. HE SAID THEY MIGHT WANT TO CHECK SOME DEFENSE POINTS OUT WITH ME ON A MOMENTS NOTICE. IN AGREEING, I REMARKED IT IS IMPORTANT TO AVOID ANY STATEMENTS WHICH CAN BE CONSTRUED AS SETTING A TIME LIMIT ON THE RETENTION OF A MILITARY-MANNED IDF. I SUGGESTED POLITICAL-MILITARY SITUATION CALLED FOR A POSITIVE STATEMENT ON THE CONTINUED NEED FOR THE FORESEEABLE FUTURE OF AN UNIMPAIRED CONFIDENTIAL

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MILITARY STATION IN ICELAND.

7. THE ABOVE ARE THE HIGHLIGHTS OF OUR CONVERSATION, WHICH MUST BE KEPT IN STRICTEST CONFIDENCE, ESPECIALLY PARAGRAPH SIX.

8. COMMENTS DURING THE EVENING ON OTHER RELATED SUBJECTS:
(A) JOHANNESSON ADVISED OLL THAT IT WILL NOT BE INVITED TO JOIN THE NEW LEFTIST GOVT, ALTHOUGH HE WOULD WELCOME ITS SUPPORT IN THE ALTHING. (B) IF LEFTIST GOVT MATERIALIZES, THE CABINET WILL CONSIST OF JOHANNESSON (PRO-BASE PP), AS PRIME MINISTER, GRONDAL (PRO-BASE SDP) AS FONMIN, AND A REDISTRIBUTION OF PORTFOLIOS FROM PRESENT LINEUP WITH THE FOLLOWING COMPOSING THE OTHER 5 MEMBERS:
AGUSTSSON (PRO-BASE PP), THORSTEINSSON (PRO-BASE SDP),

STEINGRIMUR HERMANNSSON (PP EXTREME ANTI BASE IN LAST ALTHING), LUDVIK JOSEPPSON AND MAGNUS KJARTANSSON (BOTH COMMUNIST PA ANTI-BASE). COMMENT: IF THE LINEUP RESULTS IT WILL PROVIDE A MORE SECURE PRO BASE CABINET THAN PREVIOUS ONE. (C) NEW GOVT MUST BE FORMED BY AUGUST 20 IN ORDER TO TAKE ACTION ON PROVISIONAL ECONOMIC MEASURES WHICH EXPIRE AUGUST 31. IF GOVT CRISIS CONTINUES BY THIS DATE THERE WILL BE AN AUTOMATIC AACROSS THE BOARD WAGE INCREASE OF APPROXIMATELY 25 PERCENT AND PRICE CONTROLS WILL EXPIRE. GISLASON COMMENTED CONSEQUENCES TOO CATASTROPHIC TO CONTEMPLATE.

9. COMMENT: THE SDP IS IN THE DRIVERS SEAT AND CAN BRING ABOUT DIRECTLY OR INDIRECTLY THE FORMATION OF ANY COMBINATION OF GOVT. ICELANDIC POLITICS IS SO QUIXOTIC THAT ANYTHING CAN STILL HAPPEN. ALTHOUGH AT THE MOMENT IT WOULD APPEAR AS IF A THREE PARTY (PP-PA-SDP) LEFTIST GOVT WILL BE FORMED, I WOULD NOT BE SURPRISED TO WAKE UP ONE MORNING AND HEAR THAT AN IP-PP-SDP GOVT MATERIALIZED OVERNIGHT. GENERAL FEELING, WHICH SEEMS TO BE CONFIRMED BY THE SEVERAL CONVERSATIONS I HAVE HAD WITH LEADERS OF ALL THE NON-COMMUNIST PARTIES, IS THAT WHATEVER GOVT IS FORMED, ITS DEFENSE POLICY WILL BE MORE MODERATE THAN THAT OF THE PREVIOUS GOVT. SOME COMBINATIONS, OF COURSE, WILL SUIT US BETTER THAN OTHERS. THEREFORE UNLESS ADVISED TO CONTRARY BY DEPT, I EXPECT TO CONTINUE

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TO TAKE ADVANTAGE OF OPPORTUNITIES (A) TO PRESS FOR RECOGNITION BY POLITICAL LEADERS THAT RETENTION OF AN UNIMPAIRED MILITARY STATION WITHOUT TIME LIMITS IS AN ESSENTIAL MINIMUM, AND (B) TO AVOID BEING PINNED DOWN ON IDF MODIFICATIONS BEYOND THE USG CONCESSIONS OF LAST NOVEMBER. WASHINGTON SHOULD BEGIN TO FORMULATE RANGE OF CONDITIONS AND POSITIONS OF USG ON EXTENT OF FINANCING OF SEPARATION OF CIVIL AND MILITARY AIRPORTS AND SAR ACTIVITY. THE FORMER WILL IN ANY CASE BE A CONDITION OF IDF RETENTION. THE LATTER WILL ARISE IF GRONDAL BECOMES FOREIGN MINISTER. THIS AND AN ICELANDIC INSHORE PATROL CAPABILITY HAVE BEEN POINTS STRESSED PUBLICLY BY GRONDAL IN THE PAST AND ARE NOT NEW TO US. IT IS ALSO KNOWN TO US THAT JOHANNESSON FEELS STRONGLY ABOUT THE NEED OF AN INSHORE PATROL CAPABILITY UNDER ICELANDIC COAST GUARD OPERATION.

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